# We're Growing

CERVUS
LIMITED PARTNERSHIP

JOHN DEERE

# Annual Report 2003

# Partnership Profile



With a total of six John Deere dealerships currently operating in 11 different locations, Cervus Limited Partnership is dedicated to ensuring the profitability and strong future growth potential of the John Deere brand in Western Canada. The Partnership's commitment to providing genuine customer value at the dealership level is evident in the fact that today, Cervus is the owner of the largest group of John Deere agricultural equipment dealers in Canada. Cervus Limited Partnership is a public limited partnership listed on the TSX Venture Exchange, trading under the symbol CVL.UN. Cervus Corporation is the General Partner of the Limited Partnership, and is listed on the TSX Venture Exchange, trading under the symbol CVC.

## Letter to the Unitholders

Dear Fellow Unitholders,

As President of Cervus Corporation, the General Partner for Cervus Limited Partnership, I am pleased to present to the unitholders the financial results for the period March 14, 2003 to December 31, 2003.

Cervus LP was created last year and became a public limited partnership by way of a special dividend of LP units from Cervus Corporation. As part of that transaction the operating assets of the Alberta John Deere dealerships were transferred and the financial results that are part of this report are of the dealerships in Calgary, Trochu, Stettler, Coronation and Ponoka, AB for the operating period from May 1, 2003 to Dec 31 of 2003.

Every limited partnership requires a general partner. This is the reason that we have maintained Cervus Corporation, as a separate public entity to be the General Partner for Cervus LP. Cervus Corporation has retained any dealership buildings and fixed assets and is leasing them to the partnership on commercial terms.

The Partnership acquired Farm & Garden Centre of Saskatoon, the John Deere dealership in Saskatoon and Rosthern, SK in November of 2003

Saskatoon was an important purchase for us, as it is in a strategic location for Northern and Central Saskatchewan and will be a key point for many years to come. We were able to attract two young individuals who are now shareholders of the dealership and have very strong connections to the area. Sheldon Gellner, our General Manager for the dealership, worked for John Deere for many years. Sheldon was a territory manager while working for Deere and Company so he is very familiar with our managers, our stores and our corporate structure. Corey Leonard, our Sales Manager for the Agricultural and Lawn & Grounds Care equipment was raised on a farm between Saskatoon and Rosetown. Corey's family still farms in the area, while Corey gained his business experience marketing grain to customers in the Saskatoon area. A great team to paint the area green!

As part of our strategy of operating all of the dealerships under the Partnership, Cervus LP acquired Greenline Equipment Ltd. from Cervus Corporation on Jan 1, 2004.

We were fortunate to have Colin Rush join the Greenline team in November, 2003. Colin is our General Manager for Greenline Equipment Ltd located in Moosomin and Wawota, Saskatchewan and Russell, Manitoba. Colin came from Grimsby, Ontario where he worked for John Deere with

dealer development. Colin was raised in Saskatchewan, so he is much closer to family and is now living in Moosomin. Arthur Ward also joined the Greenline team in January 2003 and is managing the Russell store. David Heide, who was previously acting as General Manager for the Greenline stores, will be able to get back to managing his 7,500 acre farm with his family. David was recently elected to serve on the Cervus Corporation Board of Directors and I look forward to working with David in his new role.

I would like to congratulate Cal Johnson and Mark Bradley from Calgary and Craig Puetz and Ron Zook from Trochu, plus all of their employees for achieving "Managers Club" status for 2003 from John Deere. Managers Club recognizes the top 15 dealers in Canada based on a number of criteria set out by John Deere. Calgary was number 5 and Trochu was number 12.

This past year was not particularly good for agricultural related businesses. The severe drought that occurred in 2002, tended to drag on in most of Western Canada, but not quite as severe as it had been in the previous year. The biggest hit that the agriculture industry faced in 2003 was BSE or "mad cow disease". When one cow was diagnosed in May of 2003 with BSE, the cattle industry was turned upside down. Alberta is particularly vulnerable because a huge industry has built up over the last number years to export live cattle to the US. Things looked more promising when the US announced they would start accepting processed beef from animals younger than 30 months in August of 2003. Unfortunately, in December 2003, a second cow located in Washington State, was traced back to Alberta was also diagnosed with BSE and the US border remains closed. There have been some recent indications that the border restrictions are easing, as certain processed bone in beef is now allowed into the U.S.

There are several positive indicators for the upcoming year. Canola and soybeans are trading at high values now because of strong demand for vegetable oils and feed protein. Also, with China's increased demand for grains and their poor crops over the last few years due to drought, the possibility of shortages of grain inventory exist. The accelerated depreciation for capital goods has stimulated farm equipment sales quite significantly in the U.S. New equipment sales in the U.S. are running well ahead of previous years and factory production will be sold out for 2004 delivery in the next few months. This could translate to higher demand for used equipment, which may provide a spill over effect in Canada. If this happens, used inventory levels in Canada may be reduced significantly this fall or next spring. The upcoming Canadian federal budget looks promising, potentially for improved depreciation rates for capital goods, which could stimulate Canadian demand for equipment.

The rise in the Canadian dollar has reduced the price of new products coming from John Deere, but this has softened used equipment values somewhat as well. A high CDN dollar reduces the price our customers get for their products as they are based on world commodities based on $ US. We did experience some increased costs this year as we adjusted our parts inventories to reflect the lower value of replacement inventory.

I want to thank all of our employees, dealer principals and board members for their hard work over the past year, and to our customers for their continued support in less than ideal times.

Let's keep our fingers crossed that the US border opens to live cattle in the next couple of months, grain prices continue their upward movement and we have sufficient rain this spring to get moisture levels back to more normal levels.

**Peter Lacey**
PRESIDENT & CEO
Cervus Corporation
General Partner – Cervus LP

## Cervus LP
## MANAGEMENT DISCUSSION AND ANALYSIS

The LP is in the business of acquiring and operating authorized John Deere Limited dealerships selling John Deere agricultural and grounds care equipment. Currently, the LP operates eleven locations in Western Canada.

**Commencement of operations**

On March 14, 2003, Cervus Corporation announced the creation of a limited partnership to be known as Cervus LP and entered into an arrangement agreement with Cervus LP.

Pursuant to the agreement, all of the net assets of its subsidiaries representing operations in Calgary, Ponoka, Stettler and Trochu transferred their net dealership assets to Cervus LP in exchange for the issuance of promissory notes, limited partnership units and fixed value limited partnership units. Cervus Corporation distributed the limited partnership units to its shareholders.

On closing of the arrangement, each common shareholder of Cervus Corporation received one limited partnership unit of Cervus LP for each common share held. Cervus Corporation is the general partner of Cervus LP.

The arrangement received shareholder, court and applicable regulatory approvals on May 21, 2003. The plan of arrangement has been approved by John Deere in principle. The LP is working in conjunction with John Deere to complete all the contractual arrangements, which are anticipated to be signed by May 31, 2004. The effective date for the arrangement was April 30, 2003.

For accounting purposes, the proposed arrangement is a transfer of a business between entities under common control and will be recorded at carrying values. The accounting value of the limited partnership units to be issued under the arrangement will be based on the net carrying values of the net dealership assets transferred to Cervus LP less the principal amount of the promissory notes and the fixed value limited partnership units.

The net dealership assets transferred to the LP and consideration paid is as follows:

| Net assets transferred to Cervus LP | Total |
|---|---|
| Accounts receivable | $ 2,124,686 |
| Inventories | 14,604,158 |
| Prepaids | 52,508 |
| Finance reserve | 535,069 |
| Goodwill | 803,969 |
| Bank indebtedness | (19,773) |
| Accounts payable | (1,291,270) |
| Floor plan payable | (8,868,406) |
| | $ 7,940,941 |

| Consideration paid | Total |
|---|---|
| Notes payable to Cervus Corporation | $ 4,916,066 |
| Limited Partnership Units (3,701,510 units) | 2,220,906 |
| Limited Partnership Fixed Value Units (803,969 units) | 803,969 |
| | $ 7,940,941 |

The net dealership assets were transferred to LP as at April 30, 2003 and the results of operations have been included to December 31, 2003. The management discussion and analysis will compare results of operations from March 14, 2003 to December 31, 2003 to the six month period from November 1, 2002 to April 30, 2003 (although during this time period these operations were owned by Cervus Corporation.)

**Revenue**

Revenue was $56.4 million for the eight months of operations ended December 31, 2003 compared to $31.9 million for the six month period ended April 30, 2003, an increase of $24.5 million. The increase in sales is due to eight months of revenue being reported compared to six. Also, agricultural equipment retailing is affected by seasonality where sales activity is low during the winters and higher during growing seasons between April and September.

New and used equipment sales were $44.6 million representing 79 percent of sales compared to $26.4 million representing 83% of sales. The decrease in whole-good sales is due to BSE ("mad cow disease") case that occurred in Alberta in May 2003 and again in December 2003 in Washington State that closed the border to Canadian beef exports to the United States. The closed border resulted in feeder cattle prices dropping to prices much below break-even levels. During periods of uncertainty, customers delay capital expenditures on whole-goods until more confidence and optimism returns to the industry. Parts and service sales were $11.5 million representing 20 percent of sales compared to $5.5 million representing 17% of sales.

**Cost of Sales**

Cost of sales were $46.9 million for the eight months of operations ended December 31, 2003 compared to $28.6 million. The increase is due to the increase in sales.

**Gross Profit Margins**

The LP's overall gross profit margin was 17 percent of sales for the eight months ended December 31, 2003 compared to 10 percent for the period ending April 30, 2003. The increase is due to seasonality where sales activity is higher between April and September. Also, in the prior years cost of sales include inventory provisions taken in light of BSE situation (as discussed above) that occurred in North America thus lowering gross margins.

**Selling, General and Administrative Expenses**

For the eight months of operations selling, general and administrative expenses were $7.0 million compared with $4.1 million, an increase of $2.9 million. As a percentage of sales, selling, general and administrative expenses were 13 percent compared with 13 percent for the comparative period.

**Depreciation**

For the eight months ended depreciation was $0.1 million compared no depreciation for the comparative period. All depreciation incurred by the LP related to the equipment acquired by LP at the two dealerships located at Rosthern and Saskatoon Saskatchewan effective November 1, 2003.

**Interest**

Interest expense was $0.4 million for the eight months of operations compared to $0.1 million. As a percentage of sales, interest expense was 0.7 percent of sales compared to 0.3 percent of sales.

**Income Taxes**

Income taxes are the responsibility of the individual partners except for the LP's subsidiary Questus. For the eight months ended, Questus had a future tax recovery of $0.1 million due to losses incurred with Farm and Garden Centre of Saskatoon Ltd. for the two months the LP owned these dealerships.

**Net Income**

The net income for the period was $2.1 million. On a per unit basis, the net income was $0.57 per unit basic and $0.56 per unit on a fully diluted basis. The weighted average units outstanding totaled 3.7 million shares for the eight months ended December 31, 2003.

**Liquidity and Capital Resources**

**Funds Provided by Operations**

Cash flow from operations, before changes in working capital, was $2.1 million for the period offset by depreciation and future income taxes as discussed above. Net changes in non-cash working capital are $0.1 million. Net cash flow after changes in working capital is $2.2 million.

**Funds Provided from Financing**

The LP received a short-term advance from Cervus Corporation of $1.7 million for the acquisition of building in Saskatoon and $0.4 million to finance the acquisition of the Farm and Garden Centre of Saskatoon from the two store managers of these two dealerships.

The partnership borrowed an additional $0.2 million, net of repayments, in notes payable from Cervus Corp. during the eight month period.

**Funds Provided from Investing**

The LP in conjunction with Cervus Corporation acquired the authorized John Deere dealerships in Saskatoon and Rosthern Saskatchewan for $3.7 million effective November 1, 2003 (net of cash acquired). The acquisition was financed by a $1.7 million short-term advance from Cervus Corporation, $1.1 million note payable from Cervus Corporation, $0.8 million floor plan payable to John Deere and $0.4 million note payable to related companies owned by the two store of these dealerships. See below for more information.

**Line of Credit, Liquidity and Debt**

As of December 31, 2003, the LP had working capital of $8.7 million. The working capital ratio stands at 1.6 to 1 at December 31, 2003. At December 31, 2003 the LP had a cash balance of $0.9 million.

Long-term liabilities include unsecured and subordinated notes payable to the general partner of $5.1 million. The notes are payable in five and six years in 2008 and 2009. The notes payable require

quarterly interest payments at bank prime rate. In addition, the LP owes $0.4 million to other related companies that are unsecured, subordinated and are payable in 2009.

As of December 31, 2003, the LP's issued equity consisted of 3,701,510 units and 803,969 fixed value units.

**Acquisition of Farm and Garden Centre of Saskatoon Ltd**

On November 1, 2003 Cervus LP in conjunction with Cervus Corporation acquired all of the issued and outstanding of Farm and Garden Centre of Saskatoon Ltd., which operate two authorized John Deere dealerships in Saskatoon and Rosthern, Saskatchewan. The purchase price for the operating assets was $4.0 million payable by the issuance of four notes payable. Cervus LP sold a 20.2% minority interest in Farm and Garden Centre Ltd. to two dealership managers of these locations on January 1, 2004 and Cervus LP retained a 67.8% ownership interest and Cervus Corporation retained a 12.0% ownership interest via its jointly owned subsidiary Questus Investment Corp.

The purchase price was allocated as follows:

| Net assets of Farm and Garden Centre of Saskatoon Ltd. | Total |
|---|---|
| Cash | $ 275,423 |
| Accounts receivable | 324,404 |
| Inventories | 3,595,958 |
| Prepaids | 17,493 |
| Property, plant and equipment | 2,534,826 |
| Finance reserve | 152,340 |
| Accounts payable | (256,754) |
| Floor plan payable | (2,098,193) |
| Income taxes payable | (17,522) |
| Future income taxes payable | (530,203) |
| | $ 3,997,772 |

| Financed by: | Total |
|---|---|
| Floor plan payable to John Deere | $ 817,000 |
| Note payable to Cervus Corporation | 1,116,772 |
| Notes payable to related companies | 404,000 |
| Advance from Cervus Corporation | 1,660,000 |
| | $ 3,997,772 |

On January 1, 2004, the LP sold land and dealership buildings to Cervus Corporation for $1.575 million.

Presently, the agreement with John Deere also provides an arrangement under which John Deere Limited can terminate a John Deere dealership owned by the LP if such dealership fails to maintain certain performance and equity covenants as agreed to by John Deere Limited and the LP. Each contract also provides a one year remedy period whereby the LP has one year to restore any deficiencies to a dealership contract. There can be no guarantee that John Deere Limited will provide its consent to John Deere dealership acquisitions and there can be no guarantee that circumstances will not arise which give John Deere Limited the right to terminate John Deere dealership contracts owned by the LP.

KPMG

Consolidated Financial Statements of

# CERVUS LP

For the period from March 14, 2003 to December 31, 2003

## AUDITORS' REPORT TO THE LIMITED PARTNERS

We have audited the consolidated balance sheet of Cervus LP as at December 31, 2003 and the statements of earnings (loss), partners' equity and cash flows for the period from March 14, 2003 to December 31, 2003 and the consolidated balance sheet of net dealership assets of Cervus Corporation (the "Dealerships") as at April 30, 2003 and the consolidated statements of earnings (loss) and cash flows for the six month period ended April 30, 2003 and for the year ended October 31, 2002. These financial statements are the responsibility of the general partner of the partnership. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Cervus LP as at December 31, 2003 and the results of its operations and its cash flows for the period from March 14, 2003 to December 31, 2003 and the financial position of the Dealerships as at April 30, 2003 and the results of its operations and its cash flows for the six month period ended April 30, 2003 and the year ended October 31, 2002 in accordance with Canadian generally accepted accounting principles.

(Signed) KPMG LLP

Chartered Accountants

Calgary, Canada
May 13, 2004

# CERVUS LP

Consolidated Balance Sheet

| | December 31, 2003 | April 30, 2003 (note 1) |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash | $ 886,325 | $ – |
| Accounts receivable | 1,433,633 | 2,124,686 |
| Inventories (note 3) | 20,064,559 | 14,604,158 |
| Prepaids | 102,725 | 52,508 |
| Land and buildings held for sale (note 14) | 1,865,630 | – |
| | 24,352,872 | 16,781,352 |
| Equipment (note 4) | 611,573 | – |
| Goodwill | 803,969 | 803,969 |
| Finance reserve (note 5) | 517,244 | 535,069 |
| | $ 26,285,658 | $ 18,120,390 |
| **Liabilities and Partners' Equity** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 1,125,492 | $ 1,291,270 |
| Bank indebtedness | – | 19,773 |
| Floor plan payables (note 6) | 12,410,972 | 8,868,406 |
| Due to Cervus Corporation (note 13) | 1,721,129 | – |
| Future income taxes (note 7) | 304,111 | – |
| | 15,561,704 | 10,179,449 |
| Notes payable to Cervus Corporation (notes 8 and 14) | 5,118,307 | – |
| Notes payable (note 14) | 404,000 | – |
| Future income taxes (note 7) | 116,255 | – |
| Net investment by Cervus Corporation (note 1) | – | 7,940,941 |
| Partners' equity (note 9) | 5,085,392 | – |
| Commitments and contingencies (notes 10 and 11) | | |
| Subsequent events (notes 14 and 15) | | |
| | $ 26,285,658 | $ 18,120,390 |

See accompanying notes to consolidated financial statements.

Approved by the Board of the General Partner:

Signed "Peter Lacey" Director

Signed "Graham Drake" Director

# CERVUS LP

Consolidated Statement of Earnings (Loss)

| | Period from March 14, 2003 to December 31, 2003 | Six month period ended April 30, 2003 | Year ended October 31, 2002 |
|---|---|---|---|
| | | (owned by Cervus Corportion - note 1) | |
| Revenue: | | | |
| Equipment sales | $ 44,649,384 | $ 26,445,875 | $ 64,117,046 |
| Parts and service | 11,509,451 | 5,551,235 | 13,165,834 |
| Other | 248,996 | – | – |
| | 56,407,831 | 31,997,110 | 77,282,880 |
| Cost of sales | 46,915,481 | 28,692,102 | 67,919,315 |
| Gross profit | 9,492,350 | 3,305,008 | 9,363,565 |
| Selling, general and administrative expenses | 7,044,365 | 4,149,912 | 7,786,161 |
| Earnings before the following | 2,447,985 | (844,904) | 1,577,404 |
| Depreciation | 60,383 | – | – |
| Interest | 387,022 | 82,203 | 271,378 |
| Earnings before income taxes | 2,000,580 | (927,107) | 1,306,026 |
| Income taxes (recovery) (note 7): | | | |
| Current | – | (296,493) | 438,045 |
| Future | (109,837) | (120,587) | 78,096 |
| | (109,837) | (417,080) | 516,141 |
| Earnings (loss) | $ 2,110,417 | $ (510,027) | $ 789,885 |

| | |
|---|---|
| Net earnings per unit (note 9): | |
| Basic | $ 0.57 |
| Diluted | $ 0.56 |

See accompanying notes to consolidated financial statements.

# CERVUS LP

Consolidated Statement of Partners' Equity

For the period from March 14, 2003 to December 31, 2003

| | Number of units | General Partner | Limited Partners | Total |
|---|---|---|---|---|
| General partner unit | 1 | $ 100 | $ – | $ 100 |
| Limited partnership fixed value units | – | 803,969 | – | 803,969 |
| Limited partnership units | 3,701,509 | – | 2,220,906 | 2,220,906 |
| Partnership formation costs | – | – | (50,000) | (50,000) |
| Net earnings | – | 47,904 | 2,062,513 | 2,110,417 |
| Balance, December 31, 2003 | 3,701,510 | $ 851,973 | $ 4,233,419 | $ 5,085,392 |

See accompanying notes to consolidated financial statements.

# CERVUS LP

Consolidated Statement of Cash Flows

| | Period from March 14, 2003 to December 31, 2003 | Six month period ended April 30, 2003 | Year ended October 31, 2002 |
|---|---|---|---|
| | | (owned by Cervus Corportion - note 1) | |
| Cash flows from (used in) the following activities: | | | |
| Operations: | | | |
| Earnings (loss) | $ 2,110,417 | $ (510,027) | $ 789,885 |
| Add items not affecting cash: | | | |
| Depreciation | 60,383 | – | – |
| Future income taxes (recovery) | (109,837) | (120,587) | (78,096) |
| | 2,060,963 | (630,614) | 711,789 |
| Net change in non-cash working capital | 122,609 | 1,612,337 | 833,441 |
| | 2,183,572 | 981,723 | 1,545,230 |
| Financing: | | | |
| Due to Cervus Corporation (note 13) | 1,721,129 | – | – |
| Increase (decrease) in net investment by Cervus Corporation | – | (1,913,180) | 350,919 |
| Increase in notes payable (note 14) | 404,000 | – | |
| Partnership formation costs | (50,000) | – | |
| Decrease in finance reserve | 170,165 | 119,751 | (95,299) |
| Issuance of general partnership unit | 100 | – | |
| Net change in notes payable to Cervus Corporation | 202,241 | – | |
| | 2,447,635 | (1,793,429) | 255,620 |
| Investments: | | | |
| Bank indebtedness assumed on formation (note 1) | (19,773) | – | – |
| Purchase of equipment | (2,760) | – | – |
| Business acquisition, net of cash acquired (note 14) | (3,722,349) | – | – |
| | (3,744,882) | – | – |
| Increase (decrease) in cash | 886,325 | (811,706) | 1,800,850 |
| Cash (bank indebtedness), beginning of period | – | 791,933 | (1,008,917) |
| Cash (bank indebtedness), end of period | $ 886,325 | $ (19,773) | $ 791,933 |

The following cash payment have been included in the determined of net earnings:

| | |
|---|---|
| Cash interest paid | $ 387,022 |

See accompanying notes to consolidated financial statements.

1. **Formation and basis of presentation:**

Cervus LP (the "LP") was incorporated under the laws of Alberta as a limited partnership on March 14, 2003. The general partner is Cervus Corporation. The LP, is a retailer of agricultural equipment primarily supplied by Deere & Company and products and services pursuant to a contract agreement to act as an authorized dealer for John Deere Limited.

On March 14, 2003, Cervus Corporation entered into an arrangement agreement with the LP. Pursuant to the agreement, the net assets of its subsidiaries with operations in Calgary, Ponoka, Stettler and Trochu were transferred to the LP in exchange for promissory notes, limited partnership units and fixed value limited partnership units. Cervus Corporation distributed the limited partnership units to its shareholders. On closing of the arrangement, each common shareholder of Cervus Corporation received one limited partnership unit of Cervus LP for each common share held.

The arrangement received shareholder, court and regulatory approvals on May 21, 2003. The arrangement has been approved in principle by John Deere. Cervus Corporation and the LP are working with John Deere to complete all the contractual arrangements which are expected to be signed May 31, 2004.

For accounting purposes, the arrangement is a transfer between entities under common control and has been recorded at carrying values. The accounting value of the limited partnership units issued under the arrangement was based on the carrying values of the dealership net assets transferred to the LP less the principal amount of the promissory notes and the fixed value limited partnership units.

The balances of the net dealership assets which were transferred to the LP are presented as at April 30, 2003 and the results of operations have been included since that date. For comparative purposes, the results of operations and cash flows have been provided for the six month period ending April 30, 2003 and for the year ending October 31, 2002. The comparative financial statements are not necessarily indicative of the results of operations, cash flows, or financial position had the dealership assets been operated as an independent entity as at or for the dates and periods presented. The comparative financial statements do not include an allocation of corporate and other overhead costs to the dealerships, costs resulting from the arrangement with the general partner and changes to the income tax provisions resulting from the change in the ownership structure from a corporation to a partnership.

The net dealership assets transferred to the LP, effective April 30, 2003, and the consideration paid are as follows:

| | |
|---|---|
| Accounts receivable | $ 2,124,686 |
| Inventories | 14,604,158 |
| Prepaids | 52,508 |
| Finance reserve | 535,069 |
| Goodwill | 803,969 |
| Bank indebtedness | (19,773) |
| Accounts payable and accrued liabilities | (1,291,270) |
| Floor plan payables | (8,868,406) |
| | $ 7,940,941 |

| | |
|---|---|
| Consideration paid: | |
| Notes payable to Cervus Corporation | $ 4,916,066 |
| Limited Partnership Units (3,701,510 units) | 2,220,906 |
| Limited Partnership Fixed Value Units (803,969 units) | 803,969 |
| | $ 7,940,941 |

2. **Significant accounting policies:**

(a) Basis of consolidation:

These consolidated financial statements include the accounts of the LP and its locations (Agro Equipment, Agrotec Farm Equipment, Farm and Garden Centre Saskatoon, Guards Implements, and Westdeer Implements) and its subsidiary, Questus Investment Corp. ("Questus"), and its subsidiaries.

(b) Inventories:

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the specific identification method for new and used equipment and average cost for parts.

(c) Equipment:

Equipment is recorded at cost. Depreciation is provided using the following methods at rates intended to depreciate the cost of the assets over their estimated useful lives. The annual rates are as follows:

| | Method | Rate |
|---|---|---|
| Automotive | declining balance | 30% |
| Computer equipment and software | declining balance | 30% |
| Office equipment | declining balance | 20% |
| Service equipment | declining balance | 20% |

Leasehold improvements are depreciated on a straight-line basis over the term of the lease.

(d) Goodwill:

Goodwill represents the cost of investments in entities in excess of the fair value of the net identifiable assets acquired. Goodwill is not amortized but is tested for impairment on an annual basis to determine if its fair value remains greater than or equal to book value.

(e) Revenue recognition:

Revenue on equipment and parts sales is recognized upon delivery to customers. Rental and service revenue is recognized at the time such services are provided.

(f) Income taxes:

Income taxes are the responsibility of the individual partners and accordingly are not reflected in these financial statements, except for the subsidiary, Questus. Questus follows the liability method of accounting for corporate income taxes. Under the liability method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

(g) Per unit amounts:

Basic per unit amounts are computed by dividing earnings by the weighted average number of units outstanding for the period. Diluted per unit amounts are calculated giving effect to the potential dilution that would occur if stock options or other dilutive instruments were exercised or converted to units. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments. This method assumes that any proceeds upon the exercise or conversion of dilutive instruments, for which market prices exceed exercise price, would be used to purchase units at the average market price of the units during the period.

(h) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from these estimates.

(i) Stock-based compensation:

The LP has adopted the new standard of the CICA Handbook Section 3870 – Stock-Based Compensation and Other Stock-Based Payments. This section establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. It applies to transactions in which an enterprise grants units of equity, unit options, or other equity instruments, or incurs liabilities based on the price of the equity instrument. For options granted to employees, the LP uses settlement date accounting whereby the unit options are accounted for only when exercised.

## 3. Inventories:

| | December 31, 2003 | April 30, 2003 |
|---|---|---|
| Used equipment | $ 8,372,326 | $ 5,305,351 |
| New equipment, net of items on consignment | 7,694,722 | 6,041,778 |
| Parts and accessories | 3,229,556 | 2,788,103 |
| Work-in-progress | 767,955 | 468,926 |
| | $ 20,064,559 | $14,604,158 |

Included in new equipment inventory and floor plan payable are deposits for items on consignment in the amount of $44,047.

## 4. Equipment:

| | Cost | Accumulated depreciation | Net book value |
|---|---|---|---|
| Automotive | $ 174,938 | $ 14,717 | $ 160,221 |
| Computer equipment and software | 34,472 | 5,249 | 29,223 |
| Office equipment | 215,707 | 15,966 | 199,741 |
| Service equipment | 221,406 | 6,895 | 214,511 |
| Leasehold improvements | 8,270 | 393 | 7,877 |
| | $ 654,793 | $ 43,220 | $ 611,573 |

## 5. Finance reserve:

John Deere Credit Inc. ("Deere Credit") provides and administers financing for retail purchases and leases of new and used equipment. Under the retail financing and lease plans, Deere Credit retains the security interest in the financed equipment. Deere Credit also retains a finance and lease reserve for amounts that the LP may be obligated to pay Deere Credit, by retaining 1% of the face amount of each contract financed or leased under the dealer accounts. The finance reserve is capped at 3% of the total dollar amount of the lease finance contracts outstanding. In the event a customer defaults and there is a deficiency in the amount owed to Deere Credit, the LP uses its finance reserve to cover the deficiency.

The maximum liability that may arise related to these contingencies is limited to the finance reserve of $517,244. Deere Credit reviews the reserve account balances with the LP quarterly and if the reserve balances exceed the minimum requirements, Deere Credit pays the difference to the LP.

## 6. Floor plan payables:

Floor plan payables are financing arrangements for inventory. The terms of these arrangements may include a four to twelve month interest-free term followed by a term during which interest is charged. Settlement of the floor plan liability generally occurs at the earlier of sale of inventory or in accordance with terms of the financing arrangement. Floor plan payables are secured by new and used equipment. A portion of amounts owed are personally guaranteed by four unitholders, an officer of the general partner and the general partner.

**7. Income taxes:**

The provision for income taxes differs from that calculated from using statutory rates due to the following:

| | |
|---|---|
| Combined statutory tax rates | 35% |
| Income taxes calculated at above rate | $ 700,203 |
| Impact of non-taxable partnership income | (810,040) |
| | $ (109,837) |

The future income tax liability is comprised of the following temporary differences:

| | |
|---|---|
| Current: | |
| Land and buildings held for sale | $ (304,111) |
| Long-term: | |
| Equipment | $ (196,987) |
| Non-capital losses carried forward | 80,732 |
| | $ (116,255) |

**8. Notes payable to Cervus Corporation:**

| | |
|---|---|
| 5 - year notes | $ 4,001,535 |
| 6 - year notes (note 14) | 1,116,772 |
| | $ 5,118,307 |

The 5 year notes payable bearing interest at prime and are subordinated and unsecured. The notes have a five year term, maturing April 30, 2008, and are repayable in advance without penalty.

## 9. Partners' equity:

(a) Authorized:

Unlimited number of partnership units.

(b) Limited partnership fixed value units:

The fixed value units are non-voting and entitle the holder to an annual distribution of 5% of the face value and are redeemable at the option of the LP.

(c) Per unit amounts:

The earnings per unit have been calculated based on the weighted average number of units outstanding for the period ended December 31, 2003 of 3,701,510. In computing diluted per unit amounts 43,000 units were added to the weighted average number of units for the dilutive effect of unit options.

(d) Unit options:

The LP has a stock option plan available to officers, directors and employees with grants under the plan approved from time to time by the board of directors of the general partner. The exercise price of each option equals the market price of the partnership units at the date of grant. The plan provides for vesting, at the discretion of the board, and the options expire after five years from the date of grant.

On July 2, 2003, the LP issued unit options to officers of the general partner and employees of the LP to issue unit options to acquire 215,000 units at an exercise price of $1.00 per unit.

The following weighted average assumptions were used to determine the fair value of options on date of grant:

| | |
|---|---|
| Risk free interest rate | 5% |
| Expected life | 3 years |
| Maximum life | 3 years |
| Expected dividend | $nil per unit |
| Expected unit price volatility | 36% |

Had the LP determined unit-based compensation costs based on the fair value at the date of grant for its unit options, net earnings and earnings per unit ("EPU") for the period from March 14, 2003 to December 31, 2003 would have decreased to the pro forma amounts indicated below. These pro forma earnings reflect compensation costs amortized over the option's vesting period.

| | As reported | Pro forma |
|---|---|---|
| Earnings | $ 2,110,417 | $ 2,106,898 |
| Basic EPU | $ 0.57 | $ 0.57 |
| Diluted EPU | $ 0.56 | $ 0.56 |

**10. Commitments and contingencies:**

(a) The LP acts as a sales agent for the lease of certain equipment by customers from Deere Credit. Under the terms of its agreement with Deere Credit, the LP is obligated to purchase the equipment leased to customers by Deere Credit at the end of the lease term. Deere Credit is obligated to finance these future purchases under dealer floor plan arrangements. The total future purchase commitments aggregate approximately $15,000,000 at December 31, 2003.

(b) Deere Credit provides financing to certain of the LP's customers. A portion of this financing is with recourse to the LP if the amounts are uncollectible. As at December 31, 2003, this amount was approximately $246,000.

(c) The LP is committed to the following rental payments under operating leases for equipment and land and buildings that expire in 2010:

| | |
|---|---:|
| 2004 | $ 1,022,724 |
| 2005 | 1,022,724 |
| 2006 | 1,022,724 |
| 2007 | 982,724 |
| 2008 | 869,492 |
| Thereafter | 2,026,000 |
| | $ 6,946,388 |

**11. Economic dependence:**

The LP's primary source of income is from the sale of farm equipment and products and services pursuant to agreements to act as an authorized dealer for John Deere Limited. The agreement with John Deere Limited provides a framework under which John Deere Limited can terminate a John Deere dealership if such dealership fails to maintain certain performance and equity covenants. Each contract also provides a one-year remedy period whereby the LP has one year to restore any deficiencies. There can be no guarantee that circumstances will not arise which give John Deere Limited the right to terminate John Deere dealership agreements.

Cervus Corporation, as general partner, is considered a co-borrower and guarantor of the indebtedness of the LP.

### 12. Financial instruments:

(a) Fair values:

The fair values of accounts receivable and current liabilities approximate their carrying amounts due to the short term maturity of those instruments.

The fair values of notes payable are estimated to approximate carrying amounts, as the interest rates are not significantly different from current rates offered to the LP for similar debt under similar credit risk and maturity conditions.

(b) Credit risk:

A substantial portion of the accounts receivable are with customers who are dependent upon the agriculture industry, and are subject to normal industry credit risks.

(c) Currency risk:

The LP may be exposed to foreign currency fluctuations as some products sold are referenced to U.S. dollar denominated prices.

(d) Interest rate risk:

The LP is exposed to interest rate fluctuations on its floating-rate debt and its floating-rate notes payable.

### 13. Related party transactions:

Under the arrangement agreement and subsequent operational agreement between the LP and Cervus Corporation, Cervus Corporation is entitled to reimbursement for costs incurred as general partner. The agreement provides for a 1% annual charge on assets utilized, allocation of insurance costs, allocation of data services, guarantee fees based on 3% of the guarantee amounts to John Deere payable to either Cervus Corporation or the individual providing the guarantees, interest on any overdraft balances, interest on any outstanding indebtedness, building lease charges based on 1% per month of the fair market value of the property, and other direct expenses reimbursable with no handling fees or markup.

During the period ended December 31, 2003, the LP had the following transactions with Cervus Corporation:

| | |
|---|---|
| Equipment and land and building rentals | $ 327,612 |
| Interest on notes payable and income on limited partnership fixed value units | 161,971 |
| Management fees | 176,162 |
| Guarantee fees | 96,250 |
| | $ 761,995 |

(i) As at December 31, 2003, the LP owed $1,721,129 to Cervus Corporation, including $1,660,000 advanced for the acquisition of Farm and Garden Centre of Saskatoon Ltd. (See note 14).

(ii) Certain limited partnership unit holders and the general partner have provided guarantees to John Deere, relating to dealership agreements, aggregating $5,750,000. During 2003, the LP paid these individuals and the general partner $96,250 for providing these guarantees.

## 14. Acquisition of Farm and Garden Centre of Saskatoon Ltd.:

On November 1, 2003, the LP and Cervus Corporation acquired two Saskatchewan-based John Deere dealerships, one located in Saskatoon and one located in Rosthern.

On January 1, 2004, the LP sold certain net assets to Cervus Corporation for $1,575,000, being the carrying value of the net assets.

The fair value of net assets acquired and the carrying value of net assets sold are as follows:

| | Net Assets Acquired | Net Assets Subsequently Sold | Net Acquisition |
|---|---|---|---|
| Cash | $ 275,423 | $ (651) | $ 274,772 |
| Accounts receivable | 324,404 | (12,830) | 311,574 |
| Inventories | 3,595,958 | – | 3,595,958 |
| Prepaid expenses | 17,493 | – | 17,493 |
| Land, buildings and equipment | 2,534,826 | (1,865,630) | 669,196 |
| Finance reserve | 152,340 | – | 152,340 |
| Accounts payable and accrued liabilities | (256,754) | – | (256,754) |
| Floor plan payables | (2,098,193) | – | (2,098,193) |
| Income taxes payable | (17,522) | – | (17,522) |
| Future income taxes | (530,203) | 304,111 | (226,092) |
| | $ 3,997,772 | $ (1,575,000) | $ 2,422,772 |

| Financed by: | Total |
|---|---|
| Advance from Cervus Corporation | $ 1,660,000 |
| Notes payable to Cervus Corporation | 1,116,772 |
| Notes payable to other related parties | 404,000 |
| Floor plan payables | 817,000 |
| | $ 3,997,772 |

The notes payable to Cervus Corporation bear interest at 5% and are subordinated and unsecured. The notes have a six year term, maturing January 1, 2009, and are repayable in advance without penalty. In addition, Cervus Corporation has an entitlement to a 15% share of future earnings of the acquired dealerships.

The notes payable to other related parties are to companies controlled by dealership managers. The notes payable bear interest at 5% and are subordinated and unsecured. The notes have a five year term, maturing January 1, 2009, and are repayable in advance without penalty. In addition, on January 1, 2004 the managers acquired a 20.2% share of future earnings of the acquired dealerships.

**15. Subsequent events:**

(a) On January 1, 2004, Cervus Corporation sold its 59% interest in Greenline Equipment Ltd. to Questus at carrying values in exchange for promissory notes from Questus. The balances as at January 1, 2004 for the Greenline dealerships were as follows:

| Net assets transferred to Questus | |
|---|---|
| Cash | $ 184,401 |
| Accounts receivable | 643,312 |
| Inventories | 7,007,879 |
| Income taxes receivable | 179,330 |
| Prepaids | 32,241 |
| Finance reserve | 139,523 |
| Equipment | 341,874 |
| Investment in affiliate | 87,203 |
| Accounts payable | (374,721) |
| Floor plan payable | (4,422,095) |
| Long term debt | (165,634) |
| Due to Cervus Corporation | (3,058,655) |
| Due to related companies | (482,207) |
| Future income taxes | (112,450) |
| | $ 1 |

| Consideration paid | |
|---|---|
| Limited partnership note | $ 1 |

(b) On May 5, 2004, the LP acquired 620,000 common shares of Cervus Corporation at a price of $2.00 per common share. As the common shares were issued pursuant to an exemption from the prospectus requirements of the Securities Act (Alberta), they are subject to a hold period expiring in September 2004.

The LP intends to distribute $0.30 per limited partnership unit on July 15, 2004 to unitholders of record on June 30, 2004. Such distribution will be paid by the distribution of 0.15 Cervus Corporation common shares for each unit.

As the hold period on the common shares will not have expired by July 15, a director and the principal shareholder of Cervus Corporation, has agreed to exchange 620,000 free-trading Cervus Corporation shares for the 620,000 restricted-shares.

As a result of the transaction, the LP owns approximately 14.35% of the issued and outstanding shares of Cervus Corporation. The LP has advised Cervus Corporation that it is acquiring the shares for the purposes of the distribution, that it is not acting jointly or in concert with any other person with respect to the acquisition of shares of Cervus Corporation and that it does not have an intention to acquire additional shares on the open market.

# Cervus Corporation - General Partner, Cervus Limited Partnership

## Directors and Senior Officers

Peter Lacey
Director, President and
Chief Executive Officer

Howard Bolinger
Chief Financial Officer

Graham Drake
Director and Vice President

Steven Collicutt
Director

Gary Harris
Director

David Heide
Director

## Principal Bank

TD Canada Trust

## Auditors

KPMG LLP

## Legal Counsel

Shea, Nerland, Calnan
Calgary, Alberta

## Transfer Agent

Computershare Trust
Company of Canada

## Trading Symbol

"CVL.UN" TSX Venture Exchange

CERVUS LIMITED PARTNERSHIP
#26, 7875 - 48th Avenue • Red Deer, AB • T4P 2B2 • P: 403-342-6892 • F: 403-352-2292